

QUEBEC MANITOU MINES LIMITED

**ANNUAL REPORT
1978**

QUEBEC MANITOU MINES LIMITED

Officers:	H. J. Mockler S. Bird	President Secretary-Treasurer
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Directors:	H. J. Mockler F. J. McDonald S. Bird G. Webster V. L. Cherry	Toronto, Ontario Ottawa, Ontario Toronto, Ontario Toronto, Ontario Miami, Florida
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Auditors:	Ernst & Ernst	Toronto, Ontario
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Bankers:	Bank of Nova Scotia	Toronto, Ontario
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Registrar and Transfer Agent:	Canada Permanent Trust Company	Toronto, Ontario
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Share Listing:	Toronto Stock Exchange	Toronto, Ontario
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Executive Office:	Suite 2314, 401 Bay Street	Toronto, Ontario M5H 2Y4
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ANNUAL MEETING

11:00 a.m. - 20 April 1979
Hotel Toronto
145 Richmond Street West
Toronto, Ontario

QUEBEC MANITOU MINES LIMITED

TO THE SHAREHOLDERS:

The Directors are pleased to submit for your consideration and interest the Annual Report of the Company for the year ended December 31, 1978. Contained herein are the audited Statement of Profit and Loss, Statement of Retained Earnings, Statement of Changes in Financial Position and the Balance Sheet.

For the year under review the Company was relatively inactive, confining its principal activities to the purchase and sale of investment securities. Subsequent to the year end several important changes occurred which we would like to bring to the attention of shareholders. At a meeting of the Board of Directors held on March 2, 1979, Mr. H. L. Coulson resigned as a Director and President of the Corporation and Mr. H. J. Mockler was nominated to fill this vacancy. At the same time, Mr. V. L. Cherry and Miss Sandra Bird were nominated to fill two vacancies on the Board of Directors created by earlier resignations. With a full complement on the Board the decision was taken to have the Company pursue a more aggressive roll in the development of natural resources, particularly, petroleum, and to cease its investment activities.

With its newly defined objectives the Company moved quickly to acquire varying interests in three prospective oil and gas projects in Alberta. Some of the more pertinent details and highlights of these acquisitions are outlined below.

Sylvan Lake, Alberta

An 8.0% interest to payout, reverting to 4.0% after payout was purchased in a discovery well located in Lsd 6, Section 17, Township 37, Range 1 W5M. Readers are referred to the map below. This well, drilled last year, intersected three gas pay zones and flowed 700,000 cubic feet of gas a day on initial drill stem test. Estimated proven and probable reserves found by this well amount to 4.7 Bcf and 2.3 Bcf. In addition to the Basal Blairmore Formation there are at least three other major formations in the area which are well known as gas and/or oil productive horizons. Along with the interest in the gas well in Section 17, the Company also acquired a 4.0% working interest in 4.25 sections of land in the immediate vicinity of the discovery well. The operators of the project anticipate one or more wells on this acreage during the coming summer months.

Alder Flats, Alberta

A 5.0% working interest was purchased in one section of land (Section 20, Township 45, Range 8 W5M) in the Alder Flats area of Alberta. The acreage block straddles two of the most important oil fields of western Canada, the Pembina Field and Willesden Green Field. It also offsets the recently discovered Alder Flats oil pool to the southeast. A well is planned on this section in early summer. All petroleum and natural gas rights are owned in Section 20. This is an important feature since the block is in the immediate West Pembina area where deep Devonian pinnacle reef oil pools have been recently discovered by several major oil companies. The well planned for the coming summer will be timed to coincide with a Crown land sale in the immediate area which will be held in July or August of this year.

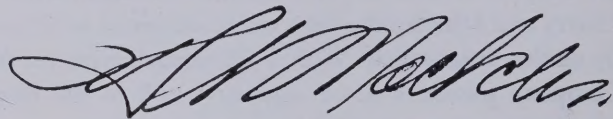
Bittern Lake, Alberta

Quebec Manitou and associated companies are participating with Omega Hydrocarbons in a joint venture to the extent of 50% each in an exploration programme in the Bittern Lake area of Alberta. The total land package consists of 4,460 acres and an additional one and one-half sections or 960 acres will be bid on at an upcoming land sale. The area is prospective for both oil and gas. Detailed

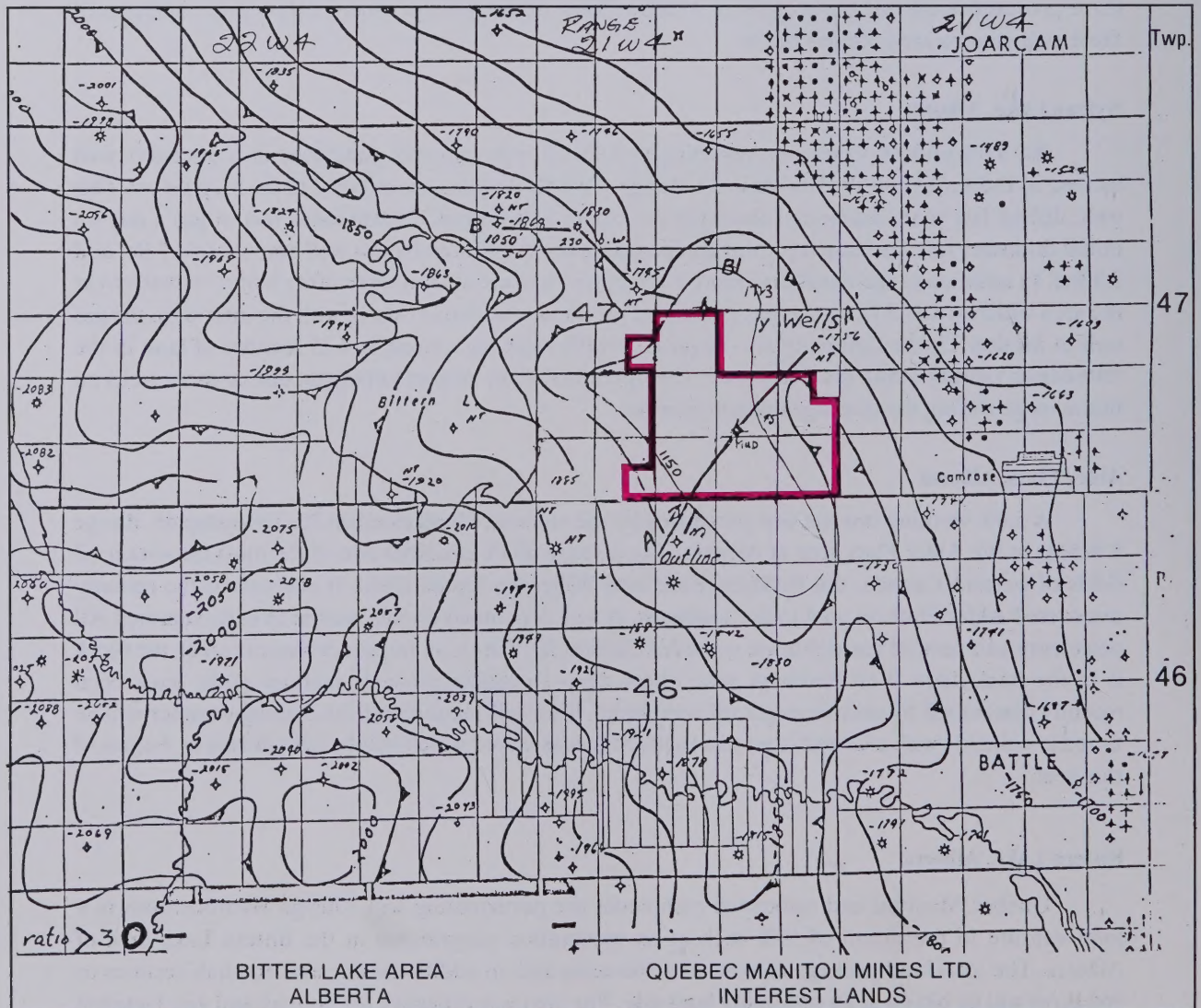
local and regional geological studies supplemented by seismic surveys and logs taken from old wells drilled in the area indicate the high probability that the Glauconite sands underlay the area. This sand is well known to be a prolific horizon in this region of Alberta. Quebec Manitou and its associates are obligated to pay for 66.6% of the cost of the first well after which all other costs will be shared on a fifty-fifty basis with Omega Hydrocarbons, the Joint Venture Partner. We believe this is a very attractive low risk exploration target that could yield a significant discovery.

On balance, management believes that its first venture into petroleum has been well conceived and conservative. We have been successful in purchasing an interest in proven reserves that could start yielding a cash flow in the near future and, at the same time, obtain some low risk exploration exposure that could result in major oil and gas discoveries. Generally, we intend to pursue this policy.

On behalf of the Board of Directors,



H. J. MOCKLER,
President.



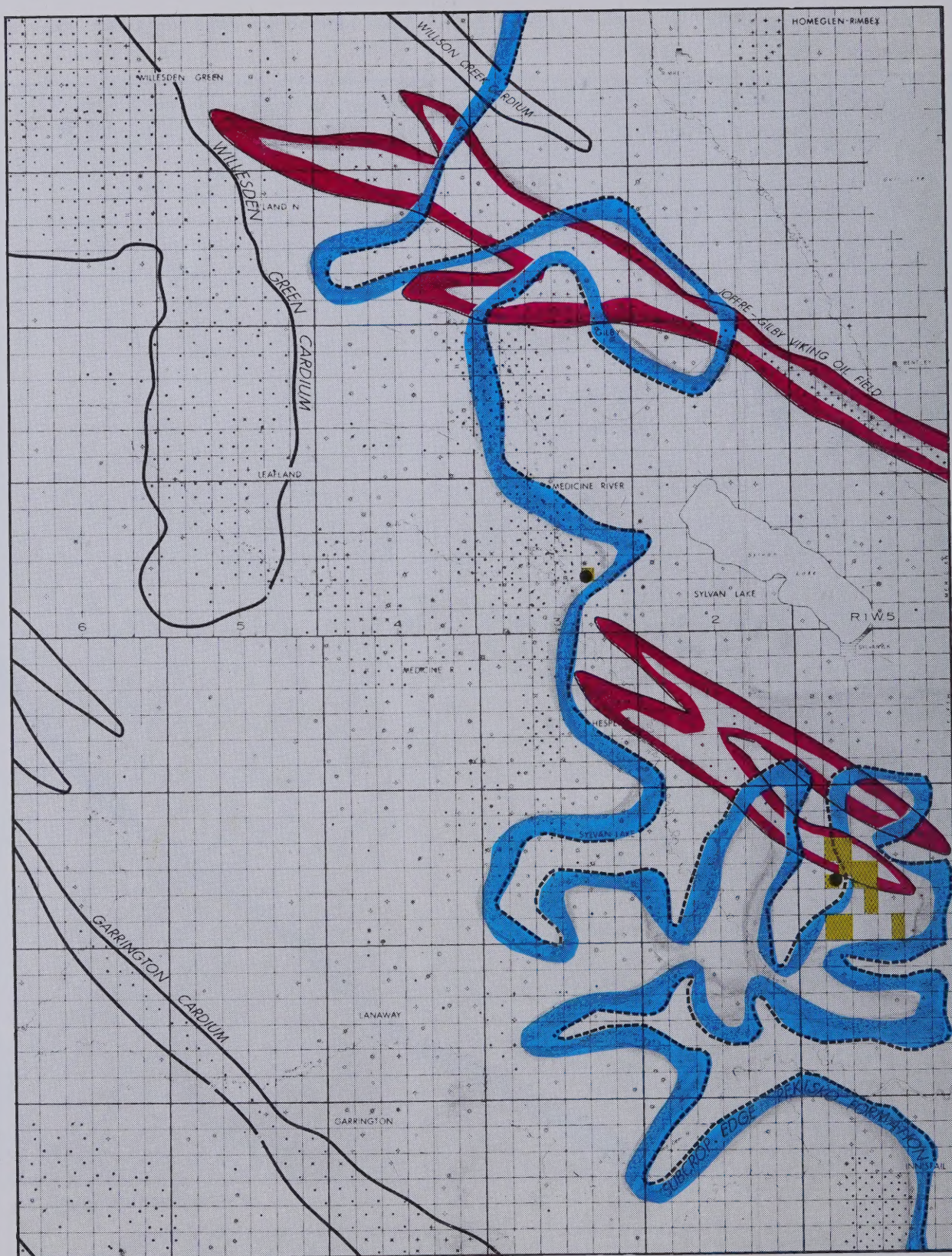


QUEBEC MANITOU MINES LTD.

LEGEND

- POROUS CARDIUM FORMATION OIL SANDS
- NISKU FORMATION
- POROUS BELLY RIVER SANDS
- OIL TREND

- RECENT DEEP NISKU LOCATIONS
- QUEBEC MANITOU LANDS —
ALDER FLATS AREA



QUEBEC MANITOU MINES LTD.

LEGEND

- POROUS CARDIUM FORMATION OIL SANDS
- POROUS VIKING FORMATION OIL SANDS
- SUBCROP EDGE PEKISKO FORMATION
- QUEBEC MANITOU INTEREST LAND — SYLVAN LAKE AREA

● RECENT DISCOVERY WELLS —

JOFFRE MEDICINE RIVER 4 - 14 - 39 - 3W4
 SABINE JOFFRE SYLVAN LAKE 6 - 17 - 37 - 1W5

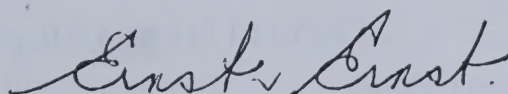
Ernst & Ernst CHARTERED ACCOUNTANTS

2200 Commerce Court West • Toronto, Ontario M5L 1C6 • Phone 416/864-9520

To the Shareholders
Quebec Manitou Mines Limited

We have examined the balance sheet of Quebec Manitou Mines Limited as at December 31, 1978 and the statements of income, retained earnings, changes in financial position and deferred exploration and development expenditures for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, subject to the future commercial success of mining properties and rights and related deferred exploration and development expenditures (Notes A and C), these financial statements present fairly the financial position of the Company as at December 31, 1978 and the results of its operations and changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.



March 2, 1979

Chartered Accountants

QUEBEC MANITOU MINES LIMITED

BALANCE SHEET

ASSETS

	1978	1977
Current Assets		
Cash	\$ -0-	\$ 17,236
Short-term deposit receipts	-0-	300,329
Accrued interest and other receivables	22,861	2,800
Marketable securities — at cost (quoted market value — \$407,328; 1977 — \$111,160)	403,484	123,390
	<u>426,345</u>	<u>443,755</u>
Other Assets		
Investment in parent company — Manitou-Barvue Mines Limited — Note B	188,441	188,441
Mining properties and rights — Note C	197,623	197,623
Deferred exploration and development expenditures	581,841	581,841
Furniture and fixtures	1,161	100
	<u>969,066</u>	<u>968,005</u>
Total Assets	<u>\$ 1,395,411</u>	<u>\$ 1,411,760</u>

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities

Bank indebtedness	\$ 7,379	\$ -0-
Accounts payable and accrued liabilities	23,963	11,359
Unclaimed dividends	-0-	641
	<u>31,342</u>	<u>12,000</u>
Deferred Income taxes	26,300	26,300

SHAREHOLDERS' EQUITY

Capital stock:

Authorized — 6,000,000 shares without par value		
Issued — 4,366,000 shares	922,838	922,838
Retained earnings	414,931	450,622
	<u>1,337,769</u>	<u>1,373,460</u>
	<u>\$ 1,395,411</u>	<u>\$ 1,411,760</u>

APPROVED ON BEHALF OF THE BOARD:

H. J. MOCKLER, Director

S. BIRD, Director

See notes to financial statements

QUEBEC MANITOU MINES LIMITED

STATEMENT OF INCOME

	Year Ended December 31	
	1978	1977
Income:		
Interest	\$ 27,250	\$ 6,672
Dividends	5,820	-0-
Gain on sale of short-term marketable securities and other income	14,763	-0-
	<u>47,833</u>	<u>6,672</u>
Expenses:		
Administrative	58,641	15,953
Transfer agent's fees	2,865	4,208
Legal and audit	15,037	62,099
Annual meeting	540	2,899
Interest and bank charges	6,441	321
	<u>83,524</u>	<u>85,480</u>
	(35,691)	(78,808)
Gain on sale of investments — Manitou-Barvue Mines Limited	<u>-0-</u>	<u>364,047</u>
Income (Loss) Before Income Taxes and Extraordinary Item	<u>(35,691)</u>	<u>285,239</u>
Income taxes	<u>-0-</u>	<u>49,600</u>
Income (Loss) Before Extraordinary Item	<u>(35,691)</u>	<u>235,639</u>
Extraordinary item — reduction of income taxes resulting from application of deferred exploration and development expenditures	<u>-0-</u>	<u>23,300</u>
Net (Loss) Income	<u>\$ (35,691)</u>	<u>\$ 258,939</u>
Earnings (loss) per share:		
Income (loss) before extraordinary item	\$ (.01)	\$.05
Net income (loss)	(.01)	.06

STATEMENT OF RETAINED EARNINGS

	1978	1977
Retained earnings at beginning of year	\$ 450,622	\$ 191,683
Net income (loss)	(35,691)	258,939
Retained Earnings at end of Year	<u>\$ 414,931</u>	<u>\$ 450,622</u>

See notes to financial statements

QUEBEC MANITOU MINES LIMITED

STATEMENT OF CHANGES IN FINANCIAL POSITION

	Year Ended December 31	
	1978	1977
Source of Funds		
Income (loss) before extraordinary item	\$ (35,691)	\$ 235,639
Charges (credits) not requiring current outlay of working capital:		
Gain on sale of investments	-0-	(364,047)
Deferred income taxes	-0-	26,300
Total (to) from Operations	(35,691)	(102,108)
Proceeds on sale of investments	-0-	500,000
Extraordinary item — reduction of income taxes resulting from application of deferred exploration and development expenditures	-0-	23,300
	(35,691)	421,192
Application of Funds		
Additions to fixed assets	1,061	-0-
Deferred exploration and development expenditures	-0-	910
	1,061	910
Increase (Decrease) in Working Capital	\$ (36,752)	\$ 420,282
Changes in Components of Working Capital		
Increase (decrease) in current assets:		
Cash	\$ (17,236)	\$ 6,300
Short-term deposits	(300,329)	300,329
Accrued interest and other receivables	20,061	2,800
Marketable securities	280,094	115,497
	(17,410)	424,926
Increase (decrease) in current liabilities:		
Bank indebtedness	7,379	-0-
Accounts payable and accrued liabilities	12,604	4,644
Unclaimed dividends	(641)	-0-
	19,342	4,644
Increase (Decrease) in Working Capital	\$ (36,752)	\$ 420,282

STATEMENT OF DEFERRED EXPLORATION AND DEVELOPMENT EXPENDITURES

	December 31	
	1978	1977
Balance at beginning of year	\$ 581,841	\$ 580,931
Add expenditures for year	-0-	910
Balance at end of Year	\$ 581,841	\$ 581,841

See notes to financial statements

QUEBEC MANITOU MINES LIMITED

NOTES TO FINANCIAL STATEMENTS

Note A – Accounting Policies

Deferred Exploration and Development Expenditures: Expenditures on mineral properties and rights are deferred on a specific project basis until the viability of the project is determined. If a project is developed, the related accumulated costs are amortized against future income from the project. If a project is discontinued the accumulated costs are written off to income in the year the project was discontinued.

Deferred Income Taxes: Deferred income taxes arise from claiming exploration and development expenditures for tax purposes before amortization of exploration and development expenditures in the accounts.

Note B – Investment in Parent Company – Manitou-Barvue Mines Limited

During October 1977 the Company became a subsidiary of Manitou-Barvue Mines Limited. At December 31, 1978, the Company held 554,427 shares (a 14% interest) in Manitou-Barvue Mines Limited. The shares of Manitou-Barvue Mines Limited were subject to a "cease trading" order of the Ontario Securities Commission at December 31, 1978 and accordingly there was no quoted market value at that date. The order was revoked by the Ontario Securities Commission on February 5, 1979 and the quoted market value at that date was approximately \$305,000. Because of the number of shares involved this quoted market value is not necessarily indicative of the amount which would be realized if this investment were sold.

Note C – Mining Properties and Rights

The Company holds the following mining properties and rights, the realization of which is dependant upon the future commercial success of these properties:

- (a) A fixed 17½% non-assessable interest is held in 55 mining claims in Langmuir Township, Ontario, valued at a net cost of \$18,464.
- (b) 24 mining claims in Bourlamaque Township, Quebec, carried at costs to date, which do not necessarily reflect present or future values, which may be more or less than \$173,804. In consideration of \$25,000, an option to Manitou-Barvue Mines Limited to develop and place into production these Bourlamaque Township mining claims at no additional obligation or expense to Quebec Manitou Mines Limited was extended until June 30, 1981. Under this option agreement after Manitou-Barvue Mines Limited is reimbursed for all funds expended by it to bring the property into production, Manitou-Barvue Mines Limited is required to issue to the Company an additional 35,000 shares of Manitou-Barvue Mines Limited. When Manitou-Barvue Mines Limited has received an additional sum of \$100,000, further revenue and interests are to be shared 25% by Quebec Manitou Mines Limited and 75% by Manitou-Barvue Mines Limited.
- (c) An option to explore and develop 20 mining claims in Duplessis Township, Quebec. This option was obtained at a cost of \$5,355 and expires on May 1, 1979 by which time the Company may elect to bring the mining claims into production and to pay to the owner a royalty of 15% of the mining profits.

Note D – Income Taxes

The Company has non-capital losses of \$105,684 available to reduce future taxable income. The non-capital losses expire as indicated below and cannot be used to reduce taxable income until \$530,000 of the deferred exploration and development expenses have been applied to taxable income.

Year	Loss
1979	\$ 24,902
1980	19,953
1981	17,474
1983	43,355
	<u>\$105,684</u>

Deferred exploration and development expenses total \$549,000, and have no expiry dates.

Note E – Remuneration of Directors and Senior Officers

The total remuneration paid to directors and senior officers, as defined by The Business Corporations Act, Ontario, for the year ended December 31, 1978 was \$49,712 (1977 – \$10,739).

